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C O N F I D E N T I A L SECTION 01 OF 03 CANBERRA 000699

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TAGS: [SENV](#) [KGHG](#) [ENRG](#) [PGOV](#) [AS](#)

SUBJECT: CLIMATE CHANGE: BILLS LIKELY TO PASS IN NOVEMBER

REF: A. CANBERRA 591
[1](#)B. CANBERRA 492
[1](#)C. CANBERRA 437
[1](#)D. CANBERRA 411

Classified By: Economic Counselor Edgard Kagan, Reasons 1.4(B)(D).

[1](#)1. (SBU) Summary: The Federal Opposition, although fractured over whether to support the Rudd government's Carbon Pollution Reduction Scheme, has opened the door to passing emissions trading legislation this year. Opposition leader Malcolm Turnbull issued a statement laying out nine demands that would allow the Liberal-National coalition to vote yes on the legislation when it is brought before the Senate for a first vote on August 13. The government initially rejected Turnbull's demands, saying they do not constitute legitimate amendments to the legislation and that he cannot deliver votes within his own divided party. But sources tell us that Opposition staff has begun drafting concrete amendments. The government continues to pressure the Opposition in a bid to strengthen the odds of passing the legislation this year. End Summary.

CPRS Signs of Life?

[1](#)2. (SBU) The government's Carbon Pollution Reduction Scheme (CPRS) appeared to be on life support in late June when the Opposition successfully delayed a vote on the legislation until August (ref A). At that time, the Opposition party room was deeply divided over the CPRS. Turnbull's public position was that there should be no vote at all until after the Copenhagen climate talks at the end of the year. It was widely expected that the parliamentary break would be used to negotiate conditions under which the CPRS could be passed if brought to a vote and to garner support in the Liberal party for the legislation. The government, which lacks a majority in the Senate, needs the Liberals to vote for the bills, as the Greens and one of the Independents (Fielding) have indicated they will not vote for the legislation under any circumstances -- Fielding because he is not convinced global warming is real and the Greens because they view the CPRS as woefully inadequate.

[1](#)3. (C/NF) Following the delay, the general consensus among

CPRS watchers has been that the bill would be voted down in August but passed by the end of the year. Erwin Jackson, who advises pro-government NGO The Climate Institute, recently told econoff that Turnbull would be unable to garner support in his party for a yes vote in August, but the threat of a double-dissolution election would mean that it would pass in November. Emma Watts of the Australia Industry Greenhouse Association noted that the government used the June delay to keep public pressure on Turnbull, and the Labor Party website now features a "doomsday clock" which counts down to the August 13 vote date. Watts, a former National Party political adviser, said the August date would be "too early to back down" but that the possibility of real amendments would mean a second vote this year would likely be successful. Water Services Association of Australia director for Science and Sustainability Adam Lovell told econoff on July 16 that the Opposition was "drafting furiously" on amendments to the bills. Lovell said he felt August was too early for a yes vote, but the bills would be brought back to parliament in November and would be agreed to at that point. World Wildlife Federation Campaign Manager Jon Nicholl rounded out the observers who felt the bills would pass on the second vote before the end of the year. In Nicholl's view, the hot dry summer predicted for this year (the Bureau of Meteorology has declared that 2009 will be an El Nino year in Australia) will re-focus the Australian public on climate change and help provide some cover for Turnbull in moving a positive vote ahead.

Turnbull Fronts the Inevitable?

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14. (SBU) Turnbull publicly turned up the pressure on his own party in mid-July, when it was revealed that he had told a party meeting that the Coalition "could not win" an early election and that passing the CPRS with concessions from the government would be better than providing a trigger for a double dissolution of parliament. A dissolution would result in an early election and give Rudd, through the required joint sitting of Parliament, the votes to pass the CPRS. On July 24, Turnbull secured from the shadow cabinet a commitment to seek nine changes to the CPRS, which, if made, could allow the Liberals to vote for the CPRS. The Nationals remain firmly opposed, and Turnbull has not guaranteed a Coalition deal. The government will not need the Nationals if enough Liberals vote for the CPRS, leaving open the likelihood of a break in the Coalition over the issue. Nationals Senator Barnaby Joyce was quoted saying there is a "snowflake's chance in hell" of a deal to vote yes on the CPRS. Turnbull's nine demands include exempting agriculture permanently, leaving the coal industry out of the scheme, and providing an equal level of protection for emissions-intensive, trade-exposed (EITE) industries as proposed in the American Clean Energy and Security Act, which passed the House in June and will be before the Senate following the summer recess.

15. (C/NF) Opposition spokesperson for emissions trading Andrew Robb told ConGen Melbourne on July 30 that Coalition senators will block the CPRS in August. Robb was unable to predict how a second vote later in the year would play out - the coalition is deeply divided on the issue and Turnbull has been unable to marshal a consensus. Robb said he suspects the Rudd government will put it back to them unchanged around November, thus giving the government a trigger for a double dissolution and penalizing Turnbull for his inability to rally around a unified policy. Robb seemed resigned that Rudd would eventually roll the coalition on this issue by emphasizing the importance of appearing to make an effort regardless of the outcome. Robb characterized the Rudd government's pace on the CPRS as "purely political." He admitted, however, that the strategy has been tremendously successful in dividing the coalition and demonstrating the

limits of Turnbull's leadership. Robb described the recent swing towards accepting the CPRS with amendments as a result of younger coalition MPs having caved in and "waved the white flag too early."

COAL DEAL ON THE TABLE?

16. (C/NF) Seeking to maximize political benefits from the appearance of a weak and divided opposition, the government has kept pressure on Turnbull, rejecting the nine-item "shopping list." Climate Change Minister Wong called on Turnbull throughout the week of July 21 to provide concrete amendments, not broad demands, to the legislation. At the same time, there may be initial steps towards a compromise that allows the CPRS to go forward. The government appeared that allows the CPRS to go forward. The government appeared to be signaling some willingness to move when it was reported (but not publicly confirmed by government) on July 28 that Wong was prepared to double the proposed one-time payoff to Australian coal producers from A\$750 million to A\$1.5 billion. That would not be enough to get the crucial coal industry behind the bill, according to Peter Morris, senior economist for the Australian Coal Association (ACA). Morris told econoff that what the industry needed was to be included in the emissions-intensive trade-exposed compensation scheme and receive 60 percent of their emission permits from the government free, not granted money to adjust. Morris pointed out that the proposed A\$750 million was 4.5 percent of the projected costs to the industry over 10 years. Even doubling that to nine percent would not get close to the 60 percent compensation other industries are going to get under the EITE scheme. Coal is one of the thorniest problems for the government, as it is a critical national industry, but politically very difficult to compensate under the CPRS. The

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ACA ran the first of a series of nation-wide ads calling for "fair treatment" under the CPRS, and will be working to increase pressure on the government in rural Australia over the next few months. ACA CEO Ralph Hillman told econoff on July 31 that the government would have no choice but to accommodate coal eventually, and that the industry would work next year in the election cycle to reduce any carbon price vulnerability if the CPRS was passed in November without excluding coal. A compromise on accepting coal into the CPRS as an emissions-intensive trade exposed industry could be one way of achieving a face-saving win for the Opposition. Hillman said in an aside that the coal industry might have accepted the one-time adjustment model now on the table if the government had applied it to other high emissions intensity industries like LNG. Once LNG was permitted to join the scheme as an EITE, the major coal players were no longer willing to accept anything less. The Greens have used support for the coal industry as a handle to attack the CPRS, but many of our contacts believe that the government is treating coal differently than other industry for political, not environmental reasons and may fold if the price is right.

17. (C/NF) Comment: The public debate over the tactics and elements in the CPRS provides lively political theater over an otherwise bland parliamentary break, but we believe it signals a move towards what many see as the ultimate outcome - passage of a bill this year that limits the short-term impact on Australia's most politically influential industries. The Government is willing to make short term compromises in order to lock in bipartisan support for legislation that will cut emissions in the longer term. Rudd has every incentive to make Turnbull sweat by giving him as little as possible and highlighting the divisions within the opposition. Barring a serious concession from government, the Coalition will knock back the CPRS on August 13. However, Turnbull and other senior opposition members can do the math as well as Rudd and seem very unlikely to risk an early election over this issue, making the legislation likely to pass by the end of year. End Comment.

